

Participant Observations: Exchange Simulations

In November and December of 2012, CMS led role-playing Exchange simulations to educate States and State stakeholders about the ACA rate-setting environment, premium stabilization mechanisms, and market dynamics. CMS conducted five simulations comprising nearly 100 participants, approximately half of whom were state officials and half of whom were from carriers. The simulations made use of ACA individual market rules, including market reforms such as guaranteed issue, rate restrictions (e.g. 3:1), and the 3Rs (risk adjustment, reinsurance, and risk corridors). After each round of bidding for 2014, 2015, and 2016, the simulation estimated each team's membership and profitability. Each simulation included two scenarios – one with a dominant carrier and one with a more competitive market.

A range of scenarios unfolded – from strong, improved competition to markets that continued to be dominated by a carrier. The market dynamics changed from year to year, and even though premium often converged, the market was still maturing past the end of the simulation period in 2016.

Below are observations from simulation participants. These do not represent the opinions of CMS.

3Rs

- The 3Rs (particularly reinsurance) provide a surprisingly large amount of relief and reduce risk premiums.
- Many participants had a limited understanding of how the 3Rs (particularly reinsurance) operate.
- The phase out of reinsurance and risk corridors may impact premiums in 2017 as 2Rs phase out.

Risk Pool

- Pricing decisions are difficult in 2014 and 2015 because initial 3Rs payments/recoveries, risk scores, and financial results are still unknown. There are many uncertainties.
- During simulation bidding, most participants didn't discuss the effect of premium subsidies on take-up and the risk mix.
- The simulation shows that the uninsured continue to join the market in 2015 and 2016, and market-wide risk scores probably move closer to 1.00 over these years.

Market Share

- It is hard to recover from overly conservative pricing in the first year because of provider contracts, stickiness, and positioning. By the time participants receive 2014 financials in early 2015 (for 2016 pricing), reinsurance and risk corridors are almost gone and market shares are less likely to move.
- Carriers can test the Exchange market and make money in the first few years, though the longer-term requires positioning and is uncertain as reinsurance and risk corridors phase out.
- There was concern about certain markets being dominated by one big player and discussion from state regulator attendees about what they could do to improve competition.

Competition Factors

- With increasingly standardized plans and transparent comparison shopping, it is hard to compete without significant network discounts or utilization controls.
- New, innovative plans, like those with narrow networks or ACOs, might provide a different type of competitive rate structure.
- Even Medicaid startups can be competitive if they have low unit cost rates and efficient delivery systems.